

Message Text

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ACTION EB-07

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SUBJECT: REPORTED OFFER OF INDONESIAN PETROLEUM TO MADAGASCAR

1. ON AUGUST 9 LOCAL PRESS, REPORTING ON VISIT OF GROUP OF MALAGASY AGRICULTURAL TECHNICIANS TO INDONESIA, FRONT-PAGED ANNOUNCEMENT THAT INDONESIAN GOVERNMENT HAD AGREED TO SUPPLY MADAGASCAR WITH 300,000 TONS OF PETROLEUM A YEAR. THE FIGURE WAS LATER UPPED TO 650,000 IN PRESS ARTICLES AUGUST 12, BUT NO FURTHER DETAILS ON TRANSACTION WERE SUPPLIED.

2. FOR FURTHER CLARIFICATION OF THE REPORTED "OFFER" OF INDONESIAN OIL TO MADAGASCAR, EMBASSY'S ECONOMIC/ COMMERCIAL OFFICER CALLED ON FIRST SECRETARY OF INDONESIAN EMBASSY IN TANANARIVE, HEODOJO HEOD, AUGUST 21. HEOD SAID QUESTION OF POSSIBLE INDONESIAN OIL FOR MADAGASCAR WAS FIRST RAISED BY MALAGASY MISSION TO INDONESIA IN THEIR MEETINGS WITH INDONESIAN OFFICIALS IN JAKARTA. THE INDONESIAN REPLIED THEY WOULD BE PREPARED TO SELL THE

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OIL, AND LATER SET PRICE. ACCORDING TO INDONESIAN

FIRST SECRETARY, IT IS NOW UP TO MALAGASY GOVERNMENT TO DECIDE WHETHER IT WISHES TO BUY THE OIL AT THE PRICE SET BY INDONESIANS.

3. HEOD ADDED THAT THERE APPEAR TO BE SEVERAL SERIOUS OBSTACLES TO ACTUAL CONCLUSION OF ANY AGREEMENT. FOR ONE THING, THE INDONESIANS WISH TO BE PAID CASH ON DELIVERY, AND THEY UNDERSTAND MADAGASCAR'S FOREIGN EXCHANGE RESERVES ARE SO LOW IT IS DOUBTFUL WHETHER THE MALAGASY COULD MEET INDONESIAN FINANCIAL TERMS. MOREOVER INDONESIANS HAVE RECENTLY HEARD THAT ONLY OIL REFINERY IN MADAGASCAR IS NOT SUITABLE FOR PROCESSING INDONESIAN CRUDE, AND MIGHT REQUIRE SUBSTANTIAL MODIFICATIONS. IN SHORT, HEOD APPEARED DISTINCTLY UNENTHUSIASTIC ABOUT OIL SUPPLY ARRANGEMENT PROPOSED BY MALAGASY, AND SKEPTICAL THAT ANYTHING WOULD EVER MATERIALIZE OF IT.

4. LOCAL OFFICIALS OF CALTEX, ONE OF TWO AMERICAN OIL MARKETING COMPANIES IN MADAGASCAR, RECENTLY CONFIRMED THE UNSUITABILITY OF LOCAL OIL REFINERY TO PROCESS INDONESIAN CRUDE. THEY ALSO REPORTED THEY UNDERSTAND PRICE SET BY INDONESIANS FOR ANY OIL THEY WOULD SELL TO MADAGASCAR IS IN FACT HIGHER THAN PRICE MADAGASCAR CURRENTLY PAYS FOR CRUDE IT RECEIVES FROM PERSIAN GULF THROUGH ITS TRADITIONAL SUPPLIERS.

5. EMBASSY COMMENT: MALAGASY WOULD APPEAR TO HAVE APPROACHED INDONESIANS ABOUT POSSIBLE SUPPLY OF OIL WITHOUT GIVING MUCH FORETHOUGHT TO QUESTIONS OF FINANCING, THE SUITABILITY OF THEIR REFINERY, AND LIKE. GIVEN THESE PROBLEMS, AND APPARENT DESIRE OF INDONESIANS FOR HARD CASH IN RETURN FOR THEIR OIL, IDEA OF A NEW SUPPLY OF INDONESIAN OIL FOR MADAGASCAR SOUNDS LIKE A NON-STARTER.
ELFERS

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